MANGEL STORES CORPORATION

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1939

AND

CONSOLIDATED STATEMENT OF INCOME AND PROFIT AND LOSS

FOR THE YEAR ENDED DECEMBER 31, 1939

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February 24, 1940.

To the Stockholders of

MANGEL STORES CORPORATION

The Profit and Loss Account for the year ended December 31, 1939, and the consolidated balance sheet are presented herewith.

The Company had 102 stores in operation at the end of 1939 as against 106 stores in 1938. The increase in volume, store for store, was 9%, very favorable in comparison to retailing in general and with the women's ready-to-wear business in particular.

In keeping with the progressive policy of improvement, a number of units were substantially improved by air cooling systems or new fronts or a complete installation. Four unprofitable stores were closed and no new units added in 1939. Our expansion program for 1940 calls for further consolidation and improvement of the units we have.

Working capital increased from $720,655 in 1938 to $875,195 in 1939. The cash balance for 1939 was $703,849 as against $748,000 in 1938, but this difference is in part accounted for by an increase in the inventory from a low of $737,655 to $940,171. The increase in the inventory is accounted for by larger quantities of the staple lines which we found necessary to purchase to counteract the rising commodity market, and which even at this date cannot be replaced at the original purchase price.

In spite of constantly increasing taxes, the operating expense was lower than in 1938, and merchandising results much better. If improved conditions, which most economists predict, develop even in a minor degree, your Company feels that 1940 may be expected to yield a very satisfactory net result.

Respectfully submitted,

SOL MANGEL,

President.

EXHIBIT A

MANGEL STORES CORPORATION

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1939

ASSETS

CURRENT ASSETS:			
Cash in banks and on hand			$ 703,849.97
Accounts receivable — less reserve (including employees' accounts)			145,455.79
Merchandise inventory — at the lower of cost or market, based upon the retail method of inventory valuation			940,171.53
TOTAL CURRENT ASSETS			1,789,477.29
OTHER ASSETS:			
Loans to officers, employees and others — less reserve		$ 2,835.00	
Cash balances, certificates of participation, etc. — suspended banks — less reserve		1.00	
Sundry deposits		4,055.40	6,891.40
FIXED ASSETS:			
Real estate — at values as appraised for the management in June, 1932, with subsequent additions at cost, subject to mortgages shown contra	$185,370.00		
Less: Reserve for depreciation	19,635.75	165,734.25	
Furniture and fixtures, leasehold improvements, and truck — at values appraised by the management in June, 1932, with subsequent additions at cost	960,154.65		
Less: Reserve for depreciation on additions subsequent to June, 1932	312,401.40	647,753.25	813,487.50
DEFERRED CHARGES:			
Unexpired insurance, prepaid expenses, etc.		31,962.26	
Stationery and supplies		6,100.00	38,062.26
GOODWILL			1.00
			$2,647,919.45

LIABILITIES

CURRENT LIABILITIES:			
Accounts payable — merchandise, less discounts			$ 677,146.73
Accounts payable — expenses, taxes, etc.			189,537.26
Customers' credits			24,941.10
Mortgage installments payable within one year			3,657.80
Reserve for Federal income taxes — Note E			19,000.00
TOTAL CURRENT LIABILITIES			914,282.89
MORTGAGES PAYABLE IN INSTALLMENTS, LESS CURRENT INSTALLMENTS SHOWN ABOVE:			
Mortgage payable through October 8, 1945		$ 30,000.00	
Mortgage payable through October 28, 1957		39,703.05	69,703.05
CAPITAL STOCK AND SURPLUS:			
Convertible Preferred Stock—$5.00 Cumulative No Par Value—stated value $25.00 per share, entitled to $100.00 per share and accrued dividends in the event of liquidation—(Notes A, C and D)			
Authorized, issued and outstanding—17,500 shares		437,500.00	
Less: In treasury—150 shares		3,750.00	
		433,750.00	
Common Stock—Par Value $1.00 per share—(Notes A and B):			
Authorized—300,000 shares			
Issued and Outstanding—177,500 shares		177,500.00	
Surplus—Exhibit B—Note C			
Capital Surplus	$718,953.00		
Earned Surplus—since January 1, 1936	333,730.51	1,052,683.51	1,663,933.51
			$2,647,919.45

The notes to accounts, appended hereto, are an integral part of this statement and should be read in conjunction herewith.

NOTES TO ACCOUNTS

Note A — The outstanding capital stock as stated is after giving effect to the shares to be issued for 255 shares of the previously outstanding 6½% Preferred Stock, par value $100.00 per share, (entitled upon redemption or voluntary liquidation to $110.00 per share plus accrued dividends, and entitled upon involuntary liquidation to $100.00 per share plus accrued dividends) which had not been surrendered for cancellation and exchange as at December 31, 1939, for 255 shares of the new convertible, no par value, Preferred Stock and 765 shares of the new $1.00 par value Common Stock, under the Plan of Recapitalization dated October 14, 1936. Cumulative dividends on said 255 shares of previously outstanding 6½% Preferred Stock amounted to $34.00 per share, or an aggregate amount of $8,670.00, as of the date when the Plan of Recapitalization was consummated. The company may possibly be contingently liable, pending the exchange of the 255 shares of old 6½% Preferred Stock.

Note B — 105,000 shares of common stock, par value $1.00 per share, are reserved in connection with the conversion privilege granted to holders of the convertible preferred stock.

Note C — The company has been advised by its counsel that, in his opinion, there are no restrictions upon the surplus of the company by reason of the difference of $1,312,500.00 between the liquidation value of its convertible preferred stock and the stated value thereof. The Board of Directors, by a resolution dated October 30, 1939, expressed their intention at that time not to impair the capital surplus of the company and its subsidiaries as at December 31, 1938, which is stated at an amount of $718,953.00. It is contemplated that the Board of Directors whenever, in its opinion, the earnings and the then financial condition shall warrant the same, will declare dividends from earnings of earned surplus account without regard to the fact that the excess of aggregate liquidation value of convertible preferred stock over its aggregate stated value may be greater than the sum of the par value of the common stock and surplus.

Note D — As at December 31, 1939, cumulative dividends on the convertible preferred stock for the seven quarterly periods commencing March 1, 1938, amounting to $8.75 per share, or an aggregate of $151,812.50, had not been declared or paid.

Note E — The accompanying statements are subject to final determination of the liability for Federal income taxes.

EXHIBIT B

MANGEL STORES CORPORATION
AND SUBSIDIARIES
CONSOLIDATED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1939

CAPITAL SURPLUS—Note C:		
Balance at January 1, 1939		$718,953.00
EARNED SURPLUS (Since January 1, 1936)—Note C:		
Balance at January 1, 1939	$ 201,889.15	
Less: Adjustment for Federal income taxes paid during 1939 in excess of reserve provided for at December 31, 1938	1,068.68	
	200,820.47	
Consolidated net income for the year ended December 31, 1939—Exhibit C	132,910.04	
EARNED SURPLUS (Since January 1, 1936) at December 31, 1939		333,730.51
		$1,052,683.51

The notes to accounts, appended hereto, are an integral part of this statement and should be read in conjunction herewith.

EXHIBIT C

CONSOLIDATED STATEMENT OF INCOME AND PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31, 1939

Net sales	$8,648,881.21
Cost of goods sold, general, administrative and selling expenses	8,406,581.77
Net operating profit before provision for depreciation	242,299.44
Provision for depreciation	104,350.49
Net profit before other income and other charges	137,948.95
Other income	19,908.82
	157,857.77
Other charges	5,947.73
Consolidated net profit before provision for Federal income taxes	151,910.04
Provision for Federal excess profits and income taxes	19,000.00
Consolidated net profit transferred to surplus—Exhibit B	$132,910.04

The notes to accounts, appended hereto, are an integral part of this statement and should be read in conjunction herewith.

TO THE BOARD OF DIRECTORS,
MANGEL STORES CORPORATION,
NEW YORK, N. Y.

We have examined the consolidated balance sheet of the Mangel Stores Corporation and its subsidiaries as at December 31, 1939, and the consolidated statements of surplus, and income and profit and loss for the year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate.

Our examination of the merchandise inventories included a review of the inventory procedure and records, including the retail inventory records, and tests to determine the mathematical accuracy of the inventory schedules. We also made a test check of the quantities in the inventories at nine representative stores selected for test purposes and at the company's warehouse located in New York.

Auditing tests and checks of records concerning accounts receivable have been made but we did not communicate with debtors as at December 31, 1939. However, during the year we communicated with the debtors at one store which represented approximately 10% of the total accounts.

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of surplus, and income and profit and loss, together with the foregoing comments and the Notes to Accounts, present fairly the consolidated position of the Mangel Stores Corporation and its subsidiaries at December 31, 1939, and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, N. Y.,
February 17, 1940

S. D. LEIDESDORF & CO.